



Ganesh Housing

STOCK INFO.	BLOOMBERG
BSE SENSEX: 13,462	GHFC IN
	REUTERS CODE
S&P CNX: 4,041	GHFC.BO

30 June 2008

Buy

Rs245

Previous Recommendation: Buy

Equity Shares (m)	32.6
52-Week Range	849/240
1,6,12 Rel. Perf. (%)	1/-31/-35
M.Cap. (Rs b)	8.0
M.Cap. (US\$ b)	0.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	536	321	6.8	-29.2	35.9	3.2	4.4	12.0	11.6	31.0
3/08E	1,274	1,061	32.5	377.0	7.5	4.4	29.3	32.6	5.8	7.0
3/09E	4,394	1,391	42.7	31.1	5.7	3.9	33.7	40.7	1.9	4.6
3/10E	8,376	1,536	47.1	10.4	5.2	3.4	32.4	36.0	1.1	4.3

- **Results below expectations:** Ganesh Housing (GHCL) reported revenue growth of 180.4% for FY08 to Rs1.3b, below our estimate of Rs2b. Net profit grew 229.5% to Rs1.1b against our estimate of Rs1.3b. EBITDA margins were 82.9% v/s 43.1% in FY07. For 4QFY08, revenue declined 53.9% YoY to Rs147m and net profit declined 61.8% YoY to Rs40m.
- **Acquired 21msf land from promoter group companies for Ognaj Township:** In 4QFY08, GHCL acquired 21.2msf land from promoter group companies for the Ognaj Township. This is part of the ~33msf land that was to be transferred from promoter group companies to GHCL (see our *Initiating Coverage* report dated 14 January 2008). Post the Ognaj land transfer, ~20% (~11.4msf) land is yet to be transferred, which includes the land for Adalaj Township and its retail properties.
- **Management to consider strategic tie-ups for development:** The management is considering strategic tie-ups for development of key projects like (a) Million Minds IT SEZ (~13msf), and (b) Ognaj Township (~21msf). We believe this is a positive strategy, as these projects are vast and have an embedded execution challenge.
- **Trades at 68% discount to NAV; valuations attractive:** We have revised our NAV estimate for FY10 from Rs962/share to Rs772/share, mainly to account for increase in cap rates (i) commercial – from 9.5% to 10.5%; and (ii) retail – from 9.5% to 11%. The stock has corrected significantly since we initiated coverage and currently trades at 68% discount to our FY10E NAV of Rs772/share. We believe that GHCL would trade at a discount to NAV mainly due to the following concerns: (i) high land cost outstanding, (ii) city-specific concentration, and (iii) project execution challenges. We maintain **Buy**.

QUARTERLY PERFORMANCE										(Rs Million)	
Y/E MARCH	FY07				FY08				FY07	FY08	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Sales	86	74	257	320	1,243	480	244	147	454	1,274	
Change (%)	-	-	-	-	1,348.7	549.3	-5.2	-53.9		180.4	
Total Expenditure	14	35	199	228	863	56	63	77	259	218	
Cost of Land/Construction	11	32	183	214	842	11	6	24	223	124	
General & Admin Expenses	2	1	1	4	12	26	43	53	35	94	
Selling Expenses	1	2	16	11	9	19	14	-	-	-	
EBITDA	72	39	58	92	380	424	181	71	196	1,056	
As % of Sales	83.4	52.3	22.5	28.6	30.6	88.4	74.1	48.0	43.1	82.9	
Depreciation	0	0	0	1	1	1	2	1	2	4	
Interest	0	1	1	6	6	4	37	16	11	63	
Other Income	4	45	44	63	49	33	27	18	43	126	
Extra-ordinary Income									180		
PBT	75	83	101	147	422	453	170	71	407	1,116	
Tax	0	22	11	43	21	(5)	8	32	85	55	
Effective Tax Rate (%)	0.2	26.7	10.8	29.0	4.9	-1.1	4.7	44.3	20.9	5.0	
Reported PAT	75	61	90	104	401	458	162	40	322	1,060	
Change (%)	-	-	-	-	436.5	652.3	80.1	-61.8		229.5	

[E: MOST Estimates

Results below expectations

Ganesh Housing (GHCL) reported revenue growth of 180.4% for FY08 to Rs1.3b, below our estimate of Rs2b. Net profit grew 229.5% to Rs1.1b against our estimate of Rs1.3b. EBITDA margins were 82.9% v/s 43.1% in FY07. For 4QFY08, revenue declined 53.9% YoY to Rs147m and net profit declined 61.8% YoY to Rs40m.

Acquired 21msf land from promoter group companies for Ognaj Township

In 4QFY08, GHCL acquired 21.2msf land from promoter group companies for the Ognaj Township. This is part of the ~33msf land that was to be transferred from promoter group companies to GHCL (see our *Initiating Coverage* report dated 14 January 2008). An initial transfer amount of Rs280m has been paid to the promoter group companies; the outstanding land cost stands at ~Rs2.7b. We expect residential development at this township to be launched in FY10 at an average launch price of Rs1,700/sf. We have valued this township at Rs13.3b – 27.7% of our GAV and 32.3% of development plans.

DEVELOPMENT PLAN OF OGNAJ TOWNSHIP

DEVELOPMENT	MSF
Residential	13.0
Commercial	6.2
Retail	1.1
Hotel	0.9
Total (msf)	21.2

Source: Company/Motilal Oswal Securities

PROJECTS - LAND YET TO BE TRANSFERRED

PROJECT	LOCATION	LAND AREA (MSF)	CONSTRUCTIBLE AREA (MSF)	SALEABLE AREA (MSF)	EXPECTED COMPLETION
Townships					
Adalaj	Adalaj	2.7	6.1	7.0	Mar-14
Retail					
Megapolis I	Paldi	0.1	0.2	0.3	May-11
Megapolis II	Ambavadi	0.1	0.1	0.2	Mar-13
Megapolis III	Thaltej, SAL Rd	0.4	1.0	1.3	Mar-12
Megapolis IV	Thaltej, Nr SG Rd	0.3	0.4	0.5	Mar-14
Megapolis V	Sola	0.7	1.6	2.1	Mar-14
Total		12.4	9.4	11.4	

Source: Company/Motilal Oswal Securities

Post the Ognaj land transfer, ~20% (~11.4msf) land is yet to be transferred, which includes the land for Adalaj Township and its retail properties. As per the MoU registered with the Gujarat state government, GHCL is required to complete the entire land transfer by FY09.

Mode of payment fixed for land transfer from group companies to GHCL

GHCL had entered into an MoU in September 2007, registered with the state government, for transfer of land (~33msf) from promoter group companies to GHCL. Land transfer for the remaining properties would be completed by FY09. In our *Initiating Coverage* report we had mentioned that as the mode of payment had not been decided for the transfer of land from promoter group companies to GHCL, it posed a risk of equity dilution. The management has now decided that the amount outstanding towards this land transfer, Rs9b, would be apportioned equally over a period of 10 years. GHCL's total land cost outstanding is 1.2x its market capitalization.

AMOUNT OUTSTANDING FOR LAND TRANSFERRED FROM PROMOTER GROUP COMPANIES

PROJECTS	(RS B)
Ognaj Township (transferred)	2.9
Adalaj Township	1.9
Retail Projects	4.2
Total	9.0

Source: Company/Motilal Oswal Securities

Successfully launched phase-I of mega IT SEZ

During 4QFY08, GHCL successfully launched Phase I of its IT SEZ, Million Minds, consisting of 2.5msf. It has received commitments for leasing 0.6msf from leading IT companies including Tech Mahindra and Patni amongst others, at average lease rentals of Rs24/sf per month. It is also considering a strategic partner for the development of ~80acres of IT space at its Million Minds SEZ. We believe this would be a big positive for the company as it would provide the execution synergy and ability to attract more large tenants. We have valued this IT SEZ at Rs11.8b, which forms 24.8% of our GAV and ~20% of its development plans.

MILLION MINDS IT SEZ'S SITE OVERVIEW



Source: Company

Good response for Golf Township at Godhavi – 56 out of 155 villas booked

GHCL launched its 450-acre Golf Township at Godhavi in

April 2008. It has already booked 56 of the 155 planned villas at this township at average rate of Rs6.5m-7m per villa. The project is strategically located, as it is just 25 minutes away from the airport and about 7km from SG Road, the main commercial hub of Ahmedabad. We expect this project to be completed over a period of 10 years.

DEVELOPMENT PLAN OF GODHAVI TOWNSHIP

DEVELOPMENT	MSF
Residential	13.2
Commercial	2.7
Retail	1.2
Hotel	0.7
Total (msf)	17.8

Source: Company/Motilal Oswal Securities

Management to consider strategic tie-ups for development

The management has cited that they are considering strategic tie-ups for the development of key projects like (a) Million Minds IT SEZ (~13msf), and (b) Ognaj Township (~21msf). We believe that this is a positive strategy, as these projects are vast and have an embedded execution challenge. GHCL has developed ~16msf over the past four decades and plans to develop ~65.6msf over the next 7-8 years.

Steady increase in development volumes

We expect GHCL's production volumes to increase from 3.3msf in FY09 to ~7.3msf in FY11. Development volumes are likely to peak at 8msf in FY12 – township development would account for ~55%, followed by the SEZ at 1.6msf.

TOTAL LAUNCH PLANS

	TOTAL	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Apartments	1.9	0.2	0.2	0.3	0.3	0.2	0.0	0.0	0.0	0.0	-	-	-
Townships	43.0	2.3	3.6	4.5	4.4	4.7	3.9	3.7	3.4	3.2	2.8	2.6	1.8
Commercial	0.3	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	-	-	-
Retail	4.4	0.1	0.3	0.5	0.9	1.0	0.7	0.6	0.2	0.0	-	-	-
SEZ	12.8	0.5	1.3	1.4	1.6	1.6	1.6	1.1	1.6	1.6	-	-	-
Hospitality	2.1	0.2	0.5	0.6	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	64.5	3.3	5.9	7.3	8.0	7.7	6.2	5.4	5.3	4.8	2.8	2.6	1.8

Source: Company/Motilal Oswal Securities

Revised NAV estimate at Rs772/share

We have revised our NAV estimate for FY10 from Rs962/share to Rs772/share, mainly to account for increase in cap rates (i) commercial – from 9.5% to 10.5%; and (ii) retail – from 9.5% to 11%. The commercial vertical forms 44% of GAV, while the residential and retail verticals account for 31% and 17% of GAV, respectively. The hospitality vertical accounts for 8% of GAV.

The stock has corrected significantly since we initiated coverage and currently trades at 68% discount to our FY10E NAV of Rs772/share. We believe that GHCL would trade at a discount to NAV mainly due to the following concerns: (i) high land cost outstanding, (ii) city-specific concentration, and (iii) project execution challenges. We maintain **Buy**.

FY10 NAV AT RS772/SHARE

NAV	PER/SHARE		% OF	% OF
CALCULATIONS	(RS M)	(RS)	NAV	GAV
Residential	14,734	452	59	31
Commercial	21,096	647	84	44
Retail	8,016	246	32	17
Hotel	4,020	123	16	8
Gross Asset Value (GAV)	47,865	1469	190	100
Less: Tax	9,573	294	-38	-20
Add: Cash	750	23	3	2
Less: Debt	210	6	-1	-
Less: Land Cost Outstanding	9,600	295	-38	-20
Less: Operating Exp	4,069	125	-16	-9
Net Asset Value (NAV)	25,164	772	100	53

Source: Company/Motilal Oswal Securities

Ganesh Housing: an investment profile

Company description

GHCL, an Ahmedabad-based real estate developer has developed 15msf till date. Amongst the largest land holders in Ahmedabad, it can be considered as one of the top five real estate companies in Gujarat. It has an ISO 9001:2000 certification. It has sales representatives in Canada and USA to cater to the NRI demand for its luxurious projects. On 1 December 2006, GHCL signed an MoU of Rs7b for the growth of IT investment in the state of Gujarat.

Key investment arguments

- GHCL is the largest land bank holder in Ahmedabad, with ~66msf of strategically located plots in and around the city.
- GHCL has pioneered the concept of townships in Ahmedabad and is currently developing three mega townships aggregating to ~46msf.
- GHCL is expanding its development portfolio from residential to new verticals such as commercial and retail, which enjoy higher yields and better margins.

Key investment risks

- GHCL has planned three townships spread across ~46msf, and 13.1msf of the mega IT SEZ. These four projects constitute ~90% of its development plans. We

believe that successful execution and marketing of these projects would pose a challenge to the company.

- GHCL has a high land cost outstanding of Rs9.3b, which is 1.1x its market capitalization. It must be noted that the amount is to be apportioned over a period of 10 years.

Recent developments

- GHCL has acquired the Ognaj township land from promoter group companies. An initial transfer amount of Rs280m has been paid to the promoter group companies, while the outstanding land cost stands at ~Rs2.7b.

Valuation and view

- The stock has corrected significantly since our *Initiating Coverage* report and currently trades at 68% discount to our FY10E NAV of Rs772/share.

Sector view

- Indian real estate industry is witnessing consolidation, and an increase in market share of large real estate companies is likely.
- Indian real estate market will pass through a phase of efficient asset pricing and consolidation over the next 18-24 months, driven by access to institutional funding.

COMPARATIVE VALUATIONS

		GANESH HOUSING	PURAVANKARA	MAHINDRA LIFESPACES
P/E (x)	FY09E	5.7	8.5	12.2
	FY10E	5.2	5.8	4.9
P/BV (Rs)	FY09E	3.9	2.7	1.8
	FY10E	3.4	2.2	1.3
EV/Sales (x)	FY09E	1.9	0.5	3.0
	FY10E	1.1	-0.4	0.7
EV/EBITDA (x)	FY09E	4.6	1.1	6.2
	FY10E	4.3	-0.8	1.4

SHAREHOLDING PATTERN (%)

	MAR-08	DEC-07	MAR-07
Promoter	60.0	39.0	40.1
Domestic Inst	4.4	6.6	7.8
Foreign	25.0	39.9	36.3
Others	10.6	14.5	15.8

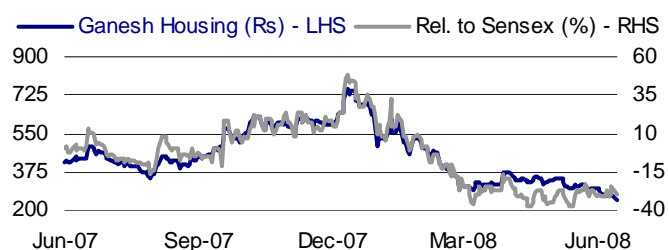
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	42.7	48.4	-11.8
FY10	47.1	59.5	-20.7

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
245	-	-	Buy

STOCK PERFORMANCE (SINCE 29 JULY 2007)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008E	2009E	2010E
Residence			0	278	410
Commercial			0	2,586	5,537
Retail			0	129	1,928
Others			0	1,400	0
Net Sales	359	536	1,274	4,394	8,376
Change (%)	44.6	86.6	137.7	244.8	90.6
Construction Exp.	210	302	124	1,728	4,699
Staff Cost	3	7	32	89	171
Office & Site Est. Exp.	8	33	94	353	673
EBITDA	140	201	1,057	1,791	2,051
% of Net Sales	39.1	37.5	82.9	40.8	24.5
Depreciation	1	2	4	42	85
Interest	2	9	63	34	79
Other Income	7	36	126	24	33
PBT	144	227	1,116	1,739	1,920
Tax	-1	85	55	348	384
Rate (%)	-0.5	37.6	5.0	20.0	20.0
Sh. of Assoc. Profits	0.0	0.0	0.0	0.0	0.0
Reported PAT	145	141	1,061	1,391	1,536
Extra-ord. Inc (Net of Exp)	0	-180	0	0	0
Adjusted PAT	145	321	1,061	1,391	1,536
Change (%)	-17.6	22.1	650.0	31.1	10.4

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2006	2007	2008E	2009E	2010E
Share Capital	120	207	326	326	326
Reserves	355	3,001	3,296	3,797	4,419
Net Worth	475	3,208	3,622	4,123	4,745
Loans	54	203	210	750	1,500
Deffered Tax Liability	-6	-2	-2	-2	-2
Capital Employed	523	3,409	3,829	4,871	6,243
Gross Fixed Assets	22	26	39	848	1,697
Less: Depreciation	13	14	18	61	146
Net Fixed Assets	9	12	20	787	1,552
Curr. Assets	592	3,606	4,915	5,718	7,506
Inventory	52	77	1,964	2,222	3,083
Debtors	264	786	1,076	1,083	1,549
Cash & Bank Balance	163	1,954	750	472	654
Loans & Advances	113	778	1,126	1,941	2,220
Current Liab. & Prov.	78	209	1,106	1,634	2,815
Creditors	48	91	869	1,049	2,169
Other Liabilities	0	0	0	0	0
Provisions	30	118	237	586	647
Net Current Assets	514	3,397	3,809	4,084	4,691
Misc. Expenses	0	0	0	0	0
Application of Funds	523	3,409	3,829	4,871	6,243

E: MOST Estimates

RATIOS					
Y/E MARCH	2006	2007	2008E	2009E	2010E
Basic (Rs)					
Adjusted EPS	9.6	6.8	32.5	42.7	47.1
Growth (%)	-72.5	-29.2	377.0	31.1	10.4
Growth (%)	35.7	-99.0	2,342.0	-100.0	#DIV/0!
Cash EPS	18.9	16.5	64.8	96.4	107.5
Book Value	19.8	77.4	55.6	63.3	72.8
DPS	2.1	2.7	4.9	6.4	7.1
Payout (incl. Div. Tax.)	19.9	62.2	15.0	15.0	15.0
Valuation (x)					
P/E (standalone)		35.9	7.5	5.7	5.2
Cash P/E		14.9	3.8	2.5	2.3
EV/EBITDA		31.0	7.0	4.6	4.3
EV/Sales		11.6	5.8	1.9	1.1
Price/Book Value		3.2	4.4	3.9	3.4
Dividend Yield (%)		1.1	2.0	2.6	2.9
Profitability Ratios (%)					
RoE	24.4	4.4	29.3	33.7	32.4
RoCE	26.1	12.0	32.6	40.7	36.0
Turnover Ratios					
Debtors (Days)		65	65	65	65
Inventory (Days)		110	110	110	110
Creditors. (Days)		70	70	70	70
Asset Turnover (x)	0.7	0.3	0.4	1.0	1.5
Leverage Ratio					
Debt/Equity (x)	0.1	0.1	0.1	0.2	0.3

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008E	2009E	2010E
PBT before EO Items	144	376	1,105	1,739	1,920
Add : Depreciation	1	2	4	42	85
Interest	2	9	63	34	79
Less : Direct Taxes Paid	-1	85	55	348	384
(Inc)/Dec in WC	-6	-1,421	-1,605	-552	-425
CF from Operations	142	-1,120	-489	915	1,275
(Inc)/Dec in FA	-1	-4	-13	-809	-849
(Pur)/Sale of Investments	0	0	0	0	0
CF from Investments	-1	-4	-13	-809	-849
(Inc)/Dec in Netw orth	-1	2,659	-466	-652	-652
(Inc)/Dec in Debt	33	149	7	540	750
Less : Interest Paid	2	9	63	34	79
Dividend Paid	29	64	181	238	263
CF from Fin. Activity	1	2,736	-703	-383	-243
Inc/Dec of Cash	142	1,791	-1,204	-278	182
Add: Beginning Balance	21	163	1,954	750	472
Closing Balance	163	1,954	750	472	654

E: MOST Estimates

N O T E S



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Disclosure of Interest Statement

Ganesh Housing

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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